

CITY AND BOROUGH OF JUNEAU, ALASKA

Passenger Facility Charges Report

Year Ended June 30, 2012

# ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801  
907.789.3178 • FAX 907.789.7128 • www.ermcpa.com

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON PASSENGER FACILITY CHARGES PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *FAA PASSENGER FACILITY CHARGE AUDIT GUIDE FOR PUBLIC AGENCIES*

To the Members of the Assembly  
City and Borough of Juneau, Alaska

### **Compliance**

We have audited the compliance of the City and Borough of Juneau, Alaska (City and Borough) with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (FAA Guide), that could have a direct and material effect on the City and Borough's passenger facility charges program for the year ended June 30, 2012. Compliance with the requirements of laws and regulations applicable to its passenger facility charges program is the responsibility of the entity's management. Our responsibility is to express an opinion on the City and Borough's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the FAA Guide. Those standards and the FAA Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charges program occurred. An audit includes examining, on a test basis, evidence about the City and Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City and Borough's compliance with those requirements.

In our opinion, the City and Borough complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its passenger facility charges program for the year ended June 30, 2012.

### **Internal Control over Compliance**

The management of the City and Borough is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charges program. In planning and performing our audit, we considered the City and Borough's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charges program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the FAA Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City and Borough's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Passenger Facility Charges

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City and Borough as of and for the year ended June 30, 2012, and have issued our report thereon dated January 15, 2013, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City and Borough's financial statements. The accompanying schedule of expenditures of passenger facility charges is presented for purposes of additional analysis as required by the FAA Guide and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of passenger facility charges is fairly stated, in all material respects, in relation to the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have issued our report dated January 15, 2013 on our consideration of the City and Borough's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the Assembly, management, others within the entity, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.



January 15, 2013

CITY AND BOROUGH OF JUNEAU, ALASKA

Schedule of Expenditures of Passenger Facility Charges

Year Ended June 30, 2012

	Application Amount	Receivable (Deferral) at June 30, 2011	Amount Collected	Interest Earned	Expenditures	Receivable (Deferral) at June 30, 2012
Application: 98-01-C-00-JNU & 01-04-U-00-JNU (Nos. 1 & 4)	\$ 1,194,429	\$ (51,245)	\$ -	\$ 992	\$ -	\$ (52,237)
Application: 00-02-C-00-JNU (No. 2)	409,172	(26,558)	-	929	-	(27,487)
Application: 04-07-C-00-JNU (No. 7)	3,566,606	(252,107)	-	15,579	-	(267,686)
Application: 08-08-C-00-JNU (No. 8)	8,142,712	-	810,955	-	810,889	(66)
Totals	<u>\$ 13,312,919</u>	<u>\$ (329,910)</u>	<u>\$ 810,955</u>	<u>\$ 17,500</u>	<u>\$ 810,889</u>	<u>\$ (347,476)</u>

See independent auditors' report.

CITY AND BOROUGH OF JUNEAU, ALASKA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

**SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?      Yes   x   No
- Significant deficiencies identified that are not considered to be material weakness(es)?   x   Yes      None reported

Noncompliance material to financial statements noted?      Yes   x   No

***Passenger Facility Charges (PFC)***

Type of auditors' report issued on compliance for the PFC program: Unqualified

Internal control over the PFC program:

- Material weakness(es) identified?      Yes   x   No
- Significant deficiencies identified that are not considered to be material weakness(es)?      Yes   x   None reported

Major program:

<u>CFDA #</u>	<u>NAME</u>
n/a	Passenger Facility Charges Program

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**Finding: 2012-01      Significant Deficiency - Internal Controls over Financial Reporting – Absence of Documented Accounting Procedures Manual**

Criteria:                      City and Borough ordinance 57.05.090, *Fiscal procedures manual*, requires City and Borough management to develop an accounting policies manual as follows:

*“The department of administration and finance shall prepare and adopt a fiscal procedures manual outlining those fiscal and accounting policies and procedures which will serve as a guide to supplement this title. Such manual shall be supplemented or revised as the director of the department shall deem necessary.”*

Condition:                      The City and Borough has not developed and maintained a Fiscal Procedures Manual as required by City and Borough code.

CITY AND BOROUGH OF JUNEAU, ALASKA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

Questioned costs: There are no questioned costs associated with this finding.

Effect: Certain important and rather complex tasks associated with the annual close of the CBJ's accounting records and the production of its financial reports are not properly documented, and are known by very few individuals. The CBJ is required by its bond covenants and federal regulations to produce these reports within certain timeframes. The lack of documented procedures makes it difficult to train individuals in instances of extended vacancies in key positions. It also exposes CBJ to inaccuracies in financial reporting and missing its reporting deadlines.

Cause: The Finance Department has not devoted sufficient resources to the development of a Financial Procedures Manual which properly documents important accounting and financial reporting tasks.

Recommendation: We recommend that Finance Department staff develop accounting procedures manuals as outlined above. The City and Borough should consider outsourcing such project as we believe that outsourcing costs will be recovered through lower overtime costs and more efficient training and utilization of staff time after the manuals have been developed.

Views of responsible Officials: Management concurs with the finding. See corrective action plan.

**Finding: 2012-02**      **Significant Deficiency - Internal Controls over Financial Reporting – Accounting Close and Audit Preparation**

Criteria: Generally accepted accounting principles and OMB Circular A-110 (Subpart C, Section 21) require that entities maintain a system of internal controls to provide reasonable assurance regarding the achievement of objectives in the following three categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations

Condition: The City and Borough of Juneau did not maintain adequate internal controls over timely and accurate general ledger and supporting schedules reconciliations.

Questioned costs: There are no questioned costs associated with this finding.

CITY AND BOROUGH OF JUNEAU, ALASKA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

Effect: Significant accounts, funds and schedules were not reconciled on a timely basis during the year. Many were done as part of the year end close or subsequent to year end. Several versions of fund statements, note disclosures and grant schedules were provided to the auditors. Several audit adjustments and other changes to the financial statements identified during the audit were necessary to properly state the financial statements and related schedules.

Cause: The cumulative impact of turnover and vacancies in finance department positions, lack of documentation of accounting procedures, work load issues brought about by position vacancies, and the protracted accounting systems implementation project all contributed to delays in regular and timely accounting closing as well as limited self- and cross- review by the accountants of the CAFR exhibits before those were provided to the auditors.

Recommendation: We recommend a monthly close of all significant account balances and transaction classes occur on a timely basis.

Views of responsible  
Officials: Management concurs with the finding. See corrective action plan.

**FINDINGS AND QUESTIONED COSTS – PFC PROGRAM AUDIT**

None to report for fiscal year 2012.

CITY AND BOROUGH OF JUNEAU, ALASKA  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2012

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None reported for fiscal year 2011.

**FINDINGS AND QUESTIONED COSTS – PFC PROGRAM AUDIT**

None reported for fiscal year 2011.



CITY AND BOROUGH OF JUNEAU, ALASKA

CORRECTIVE ACTION PLAN

Year Ended June 30, 2012

Corrective Action Plan 2012-01

Management will develop and maintain a fiscal procedures manual that would outline daily, monthly, quarterly and annual accounting and finance tasks. Such manual will be documented concurrently, if feasible, during streamlining regular accounting closes procedures.

Corrective Action Plan 2012-02

Management commit resources to assure that Finance staff turnover is addressed immediately. Management and lead staff assure that accounting subsystems and general ledger are closed on a monthly basis. Develop management reports and control schedules that facilitate timely review and analysis of the financial information to assure accuracy and consistency.

Anticipated Completion Date for Both Findings

June 2013

Person to Contact

Bob Bartholomew  
Finance Director  
City and Borough of Juneau  
907-586-0300  
155 S. Seward Street  
Juneau, Alaska 99801